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SIPDIS

DEPT PASS USTR FOR LERRION
TREASURY FOR OASIA - PLANTIER
USDOC/ITA/MAC/DAVID DEFALCO
DEPT PASS EXIM FOR MARGARET KOSTIC

SENSITIVE

E.O. 12958: N/A

TAGS: [EAGR](#) [EINV](#) [BEXP](#) [TU](#)

SUBJECT: Update on Cargill and Sugar Industry Issues

Summary

[11.](#) (SBU) The GOT is considering legislation on Turkey's sugar and high fructose corn syrup (HFCS) quota system which would provide an amnesty to companies, including Ulker's Cola Turka, rumored to have invested in unauthorized corn syrup production that violates the quota laws. Coca Cola and Pepsi have applied for permission to invest in HFCS production for internal use, but the authorities have turned down their application. Cargill told us it opposes an amnesty, despite the fact that it has partnered with Ulker in at least one starch facility. Changes in the quota system could pit U.S. producing and consuming companies against one another. The USG will need to consider these competing U.S. interests in the event that one or the other side requests our advocacy with respect to this legislation. End Summary.

[12.](#) (SBU) The Ministry of Industry and Commerce is reportedly considering legislation which would legalize investments in corn syrup production capacity made in violation of Turkey's sugar quota system. Mustafa Sayinatac, Cargill's Director for Corporate Affairs and a member of the quota-administering Sugar Board, also expressed concern that the legislation would subordinate the Board to the Minister. Turkish Daily Referans and Sayinatac reported that Cola Turka, which belongs to the Ulker Group, is expected to benefit from the amnesty provisions in the bill, while Coca Cola and Pepsi Cola, which had applied for permission to invest in similar production techniques, had been turned down by the GOT. Sayinatac told us that Cargill might request USG advocacy against the draft legislation if it moves closer toward enactment in its current form. Pepsi has also registered with the Embassy its concern about the amnesty.

[13.](#) (U) Under the quota system in place since 2001, a Sugar Board with representatives of both the sugar and corn syrup industries establishes annual production quotas to deal with overcapacity in the industry. Companies must seek the Board's permission prior to making new investments in sugar or corn syrup production capacity, even for internal use in a vertically integrated production process. At the same time, illegal investment is motivated by Turkish domestic prices for sugar which are now about four times those in global markets. According to the press, Cola Turka has realized a fifteen percent cost advantage over its competitors through illegal in-house sugar production. Cola Turka issued a press statement denying allegations of unlicensed fructose production. Cola Turka claimed that the law requires licensing only for sales to the market and not for internal use.

[14.](#) (SBU) Interestingly, Referans also reported that Ulker and Cargill are partners in a company called Pendik Starch Industry Inc., which is reportedly also being investigated for unlicensed fructose production. Commenting on the article, Sayinatac confirmed that Cargill and Ulker are partners in this company, but he maintained that Pendik is "technically" not violating the quota system. Pendik's product is starch slurry, which can be used as an input in HFCS production, but the quota system does not regulate this material.

[15.](#) (SBU) Sayinatac also noted the GOT's decision in early 2005 to abolish the Sugar Authority, the body staffing the Board. He said the reasons for the decision were not clear. Referans speculated that the abolition of the Authority is somehow linked to an investigation of Cola Turka/Ulker over quota violations, and noted the Prime Minister's former shareholding in a large Ulker distributor.

Comment/Recommendation

16. (SBU) We note that Cargill, as an HFCS producer with a share of Turkey's sugar quota, is faced with the tradeoff of limits on how much it can produce alongside high prices for its output as a direct result of those limits. However, its partnership with Ulker presumably means it also has some equities on the HFCS-consuming side. Coca Cola and Pepsi might not object as strenuously to an amnesty if they could also gain permission to produce their own corn syrup as part of a vertically-integrated plant. These U.S. companies may have mutually-conflicting commercial interests arising from sugar quota system. We will have to take these factors, along with our long-run interest in a transparent, rule-based investment climate and a liberalized sugar sector in Turkey, into account in deciding whether to advocate for any of the American players involved in this issue.

Edelman